



**Shrewsbury Public Schools
Massachusetts 01545**

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To: School Committee

Subj: FY 13 State Funding

Overview

Chapter 70 Aid and the state special education reimbursement program, commonly known as the Circuit Breaker program, are state funded programs that allocate resources for education to school districts in the Commonwealth. This memo will broadly outline how each of these programs work and the impact on Shrewsbury.

Chapter 70

The Education Reform Law of 1993 included the Chapter 70 Aid program to aid cities and towns for the operation of K-12 public schools. The original intent of the program was "to ensure that every public school system had adequate funding, regardless of the wealth of the local community." The financing formula has evolved from its original state to consider a community's ability to pay according to its property values as well as income levels. Thus, the program that began in 1994 continues to provide substantial resources to communities throughout the Commonwealth under the aggregate wealth model. The goal of the Chapter 70 formula is to ensure that every district has sufficient resources to meet its foundation budget spending level, through an equitable combination of local property taxes and state aid.

Components

The Chapter 70 aid to school districts is determined through four basic steps:

STEP 1: CALCULATE FOUNDATION BUDGET

This total "foundation budget" is designed to represent the total cost of providing an adequate education for all students, and it is often expressed as a per-pupil foundation budget by dividing the total foundation budget by the number of students. A district's foundation budget is derived by multiplying the number of pupils in fourteen enrollment categories by cost rates in eleven functional areas. The enrollment categories include Preschool, Kindergarten, Elementary, Middle, High School, English Language Learners, and Vocational as well as incremental cost categories including Special Education In-District and Out of District, and Low Income. Certain formulas are used that assume ratios of students and staff that apply to all districts, not specific to each district. The functional areas include administration, instructional leadership, classroom teachers, guidance, maintenance and operations, employee benefits as well as a wage and inflation factor to sum up the foundation budget.

The Shrewsbury Public Schools in partnership with the community, will provide students with the skills and knowledge for the 21st century, an appreciation of our democratic tradition, and the desire to continue to learn throughout life.

STEP 2: CALCULATE REQUIRED LOCAL CONTRIBUTION

Once the total foundation budget is established, the state calculates each city and town's "ability to contribute" local revenue towards the operation of its schools. Local ability to contribute varies widely based upon the incomes and property values of different cities and towns. The required local contribution is basically a measure of how much local tax revenue a city or town can reasonably raise and dedicate to the operation of its schools and is known as the aggregate wealth model.

As part of the 2007 reforms, the state now calculates two separate local contribution amounts for each district before coming up with a final required contribution. The state gets to the required contribution through three steps:

1. A "preliminary contribution" is calculated by taking the previous year's required local contribution and multiplying it by the Municipal Revenue Growth Factor, a rate that estimates growth in local revenues from year to year.
2. A "target contribution" is calculated by looking at the specific property values and income wealth of a given community.
3. Since the target contribution is more directly tied to each community's current ability to contribute, the state then sets a "required contribution" designed to move districts whose preliminary contributions are either above or below their target contributions towards the target. The final required contribution is then set based on uniform rules, and falls in between the preliminary and target contributions.

It is important to note that Shrewsbury's determination of its required contribution is below the target and is as follows for FY13:

	<u>Amount</u>	<u>% of Foundation</u>
A) FY12 Required Local Contribution	\$33,692,240	65.07%
B) FY13 Preliminary Local Contribution	\$34,746,807	64.86%
C) FY13 Target Local Share	\$38,401,724	71.68%
D) Adjusted FY13 Required Contribution	\$35,083,729	65.49%

- Preliminary FY13 Required Contribution represents the FY12 Required Local Contribution multiplied by the Municipal Revenue Growth Factor of 3.13%
 $A \times 3.13\% = B$
- FY13 Target Local Share represents what the state formula indicates what Shrewsbury should be contributing based on its property value and citizens' income.
- Adjusted FY13 Required Contribution represents the state's requirement to move closer to the Target Local Share. This is determined by taking 1% of the FY12 Required Local Contribution and adding it to the Preliminary FY13 Required Contribution $(A \times 1\%) + B = D$

- The 1% adjustment is required because Shrewsbury's Preliminary FY13 Required Contribution of 64.86% is more than 5% below the Target Local Share of 71.68% (it is 6.82% lower). If it were 10% or more below the Target Local Share the adjustment would have been 2%.

STEP 3: FILL THE GAP WITH CHAPTER 70 EDUCATION AID

Chapter 70 education aid is then determined by filling the gap between a district's required local contribution and its foundation budget. Calculating state aid from the difference between steps 1 and 2 ensures that every district can fund the total baseline education determined appropriate by the foundation budget.

It is important to note that the Governor's Budget recommended a level funded FY13 Chapter 70 aid number of \$18,511,623. Based upon the Adjusted FY13 Required Contribution from Shrewsbury, the Chapter 70 formula would only provide \$18,491,163; however, the Governor's recommendation held all districts harmless by guaranteeing at least the same amount of Chapter 70 funding in FY13 as in FY12.

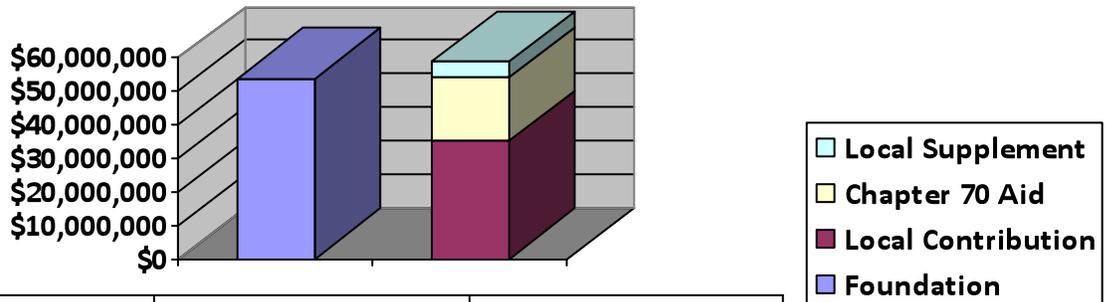
The House Ways and Means Committee subsequently recommended that all districts receive a minimum increase of \$40 per student in Chapter 70 funding. Based upon the House budget that was just approved, Shrewsbury's final Chapter 70 aid number for FY13 is \$18,748,463.

STEP 4: AFTER CHAPTER 70 AID IS DETERMINED, DISTRICTS MAY CONTRIBUTE MORE

The required local contribution is only a minimum amount that cities and towns must contribute to their school districts, and many communities opt to contribute significantly more. For this reason, the Chapter 70 formula provides a baseline school budget, but it does not ensure equitable total funding across the state.¹

The chart below illustrates how Shrewsbury's Chapter 70 funding for the current year is supplemented by additional local funding. The table below shows the difference between our required Net School Spending versus our actual Net School Spending over the last several years. Required Net School Spending represents the sum of the district's required contribution (Step 2 above) and the total of Chapter 70 aid received (Step 3 above). Amounts spent in addition to this minimum are at the local community's discretion.

Shrewsbury Chapter 70 Formula – FY 13



Local Supplement		\$4,627,804
Chapter 70 Aid		\$18,748,463
Local Contribution		\$35,083,729
Foundation	\$53,574,892	

History of Chapter 70

<u>Year</u>	<u>Enrollment</u>	<u>Foundation Budget</u>	<u>Required Local Contribution</u>	<u>Chapter 70 Aid</u>	<u>Required Net School Spending</u>	<u>Actual Net School Spending</u>	<u>% Over</u>
FY03	4,953	\$31,933,286	\$23,187,512	\$8,745,774	\$31,933,286	\$36,101,586	13.1
FY04	5,128	\$33,741,872	\$23,454,168	\$10,287,704	\$33,741,872	\$39,141,459	16.0
FY05	5,383	\$36,777,283	\$24,828,582	\$11,948,701	\$36,777,283	\$42,111,030	14.5
FY06	5,571	\$39,662,058	\$25,861,451	\$13,800,607	\$39,662,058	\$44,016,335	11.0
FY07	5,705	\$43,006,922	\$27,107,973	\$15,898,949	\$43,006,922	\$45,644,331	6.1
FY08	5,811	\$46,216,469	\$28,796,799	\$17,419,670	\$46,216,469	\$50,466,635	9.2
FY09	5,852	\$49,163,923	\$30,297,112	\$16,882,697	\$47,179,809	\$51,146,928	8.4
FY10	5,857	\$50,640,025	\$31,084,837	\$18,489,475	\$49,574,312	\$53,150,125	7.2
FY11	5,848	\$49,767,093	\$32,455,678	\$18,412,775	\$50,868,453	\$55,586,903	9.3
FY12	5,921	\$51,780,005	\$33,692,240	\$18,511,623	\$52,203,863	\$56,831,667*	8.9
FY13**	5,921	\$53,574,892	\$35,083,729	\$18,748,463	\$53,595,352	N/A	

*Budgeted Net School Spending

** FY13 Chapter 70 aid including additional \$40 Per Student recommended by House Ways and Means Committee. The Governor's Budget recommended level funding Chapter 70 at \$18,511,623. The enrollment in FY13 is based on the previous year's formulaic foundation enrollment.

Phase In Approach

A set of reforms to the Chapter 70 formula were adopted in FY 2007 with a five-year phase-in through FY 2011. Due to the national recession these reforms have been slowed down and were not fully implemented as scheduled. As illustrated above, Shrewsbury's local required contribution is being adjusted by 1%, yet the additional funding in the

House budget will result in a gap between the actual and targeted ratios between local and state funding for education.

Recent history suggests that the state would be reluctant to reduce Chapter 70 from one year to the next. However, it is important to note that if the state becomes more aggressive with its phase-in for a larger local share of education funding, the rate of increase of Chapter 70 funding may slow considerably.

Chapter 70 Shortcomings

The Chapter 70 aid formula has come under sharp criticism over the last several years for not adequately funding Massachusetts cities and towns. The following examples are cited:

- The formula has not adequately kept up with the cost of inflation particularly as it relates to the cost of Health Insurance for cities and towns
- The formula does not adequately fund the rising costs of Special Education, particularly out of district students. It takes “assumed” percentages and gives incremental value, but does not address the real cost
- The formula does not take into account the changing needs of education, particularly around technology in the classroom and associated costs
- The formula used an inflation factor in calculating Chapter 70 in FY10 that was lower than the factor required by state law, resulting in reduced state aid for FY10 and subsequent years
- The Foundation Budget and Net School Spending requirements do not account for transportation costs or debt payments. Transportation alone in Shrewsbury costs over \$3 million dollars and the Foundation Budget does not account for this.

Federal Stimulus

It is important to note that federal stimulus money during the fiscal crisis has backfilled much of the Chapter 70 aid. Shrewsbury has benefited from this federal money to help offset shortfalls in the budget. However, FY 12 was the last year of the American Recovery and Reinvestment Act revenues and Shrewsbury no longer has this federal stimulus money.

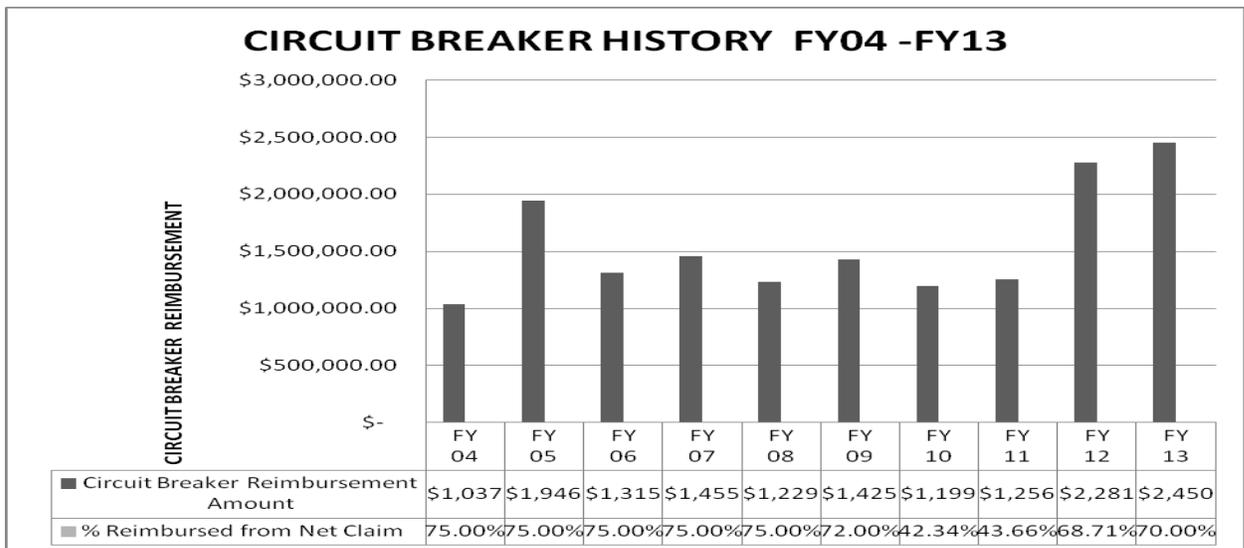
Circuit Breaker

The Circuit Breaker program was started in FY04 to provide additional state funding to districts for high-cost special education students. The threshold for eligibility is tied to four times the state average foundation budget per pupil as calculated under the Chapter 70 program, with the state paying 75% of the costs above this threshold. The statewide foundation budget for FY13 is \$10,128 so four times that is \$40,512. As an example, if a special education student were to cost a district \$50,000 in FY13, the district’s eligible reimbursement for that student would be $(\$50,000 - (4 * \$10,128)) * .75 = \$7,116$. This reimbursement would be received in FY 14. It is important to note that the 75%

reimbursement rate dropped in recent years (and shown on chart) during the recession and is currently expected to be 70 to 75%.

Circuit Breaker reimbursements are for the district’s prior year’s expense. Each summer, districts submit claim forms to the Department of Elementary and Secondary Education (DESE) listing the types and amounts of special education instructional services provided to each student during the previous fiscal year. Circuit Breaker claims are audited by DESE and a net claim is derived which sets the dollar amount that will be reimbursed and payments are made to districts quarterly. It should be noted that special education transportation is not included in the Circuit Breaker program.²

The chart below illustrates the historical Circuit Breaker Funds that Shrewsbury Public Schools has received. It is important to note that Circuit Breaker revenue is derived from the previous fiscal year’s “net claim”. Circuit Breaker revenue is up approximately \$1.2 million from FY 08.



Decreasing State Local Aid

While the recent Circuit Breaker revenue has been increasing, it is important to note that the Town’s share of “Local Aid” which is the combination of Education Aid (Chapter 70) and General Government less charges and assessments has been decreasing over the last five years. This is attributable to less Government Aid as well as increasing charges and assessments. The Charter School sending tuitions charges are mainly responsible for the increasing charges. The total reduction in “Local Aid” is approximately \$1.7 million from FY 09. This downward trend has put tremendous pressure on cities and towns despite rising health care and personnel costs.

Summary

In conclusion, Chapter 70 is the state aid formula used to determine adequate funding levels to educate children throughout Massachusetts. Although the formula does have flaws, it is a critical funding source for cities and towns in Massachusetts. Shrewsbury is considered to be below its targeted local share of education funding based on its property and income wealth, and as a result state levels of funding could stagnate in the future. It is hoped that the legislature will update the formula to address areas where current educational needs are different than what they were when the formula was established almost twenty years ago.

Circuit Breaker is the state special education program which is intended to provide additional funding for high cost special education students. Recently, Shrewsbury has benefited from increasing Circuit Breaker revenues due to our increased special education costs and rising reimbursement rate. However, it should be noted that local districts still must shoulder the burden of approximately the first \$40,000 in costs per student and 25% of all costs beyond that if Circuit Breaker is fully funded at the 75% level, and with zero reimbursement for special education transportation.

1 – MassBudget and Policy Center Report – “Demystifying The Chapter 70 Formula”

http://www.massbudget.org/report_window.php?loc=Facts_10_22_10.html

2- DESE - School Finance – Circuit Breaker, Jeff Wulfson